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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 003322

SIPDIS

DEPT FOR EUR/RUS, FOR EEB/ESC/IEC GALLOGLY AND WRIGHT
EUR/CARC, SCA (GALLAGHER, SUMAR)
TREASURY FOR TORGERSON
DOE FOR FREDRIKSEN, HEGBORG, EKIMOFF

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TAGS: [EPET](#) [EFIN](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#)
SUBJECT: NEW CALLS FOR RUBLE TO BECOME A "RESERVE CURRENCY"
DERIDED

Classified By: Econ MC Eric T. Schultz for Reasons 1.4 (b/d)

SUMMARY

[¶1.](#) (C) President Medvedev and Prime Minister Putin have both recently repeated suggestions that the Russian ruble should become a "regional reserve currency" and that to achieve this Russian oil exports should be denominated in rubles. We discussed these proposals with a variety of local analysts, virtually all of whom felt that at best it would take decades to convince other countries to use the ruble as a reserve currency, even in the former Soviet Union, and that forcing ruble payments for oil and gas exports would not materially advance this objective. End summary.

RESERVE CURRENCY BY DECREE?

[¶2.](#) (C) In his first Presidential Address on November 5, President Medvedev renewed calls for the Russian ruble to be a "regional reserve currency." He suggested that to accomplish this, Russia's oil and gas exports should be paid for in rubles. The remarks echo previous similar comments by PM Putin. At a major economic conference last year, Putin publicly declared that the ruble should become a world reserve currency on par with the dollar and the euro. More recently, in late October of this year, Putin reportedly told Chinese Premier Wen that the two countries should move toward using their respective national currencies in trade.

[¶3.](#) (C) We asked a variety of local contacts for their views on this GOR objective. All contacts with whom we spoke on the topic either acknowledged the goal would be decades in the making or derided it outright. Most of our contacts predicted the comments would have no significant real-world impact, except perhaps to exacerbate growing concerns that the GOR is too invested with its geo-political aspirations and not adequately focused on needed economic reforms.

[¶4.](#) (C) Ron Smith, chief strategist and analyst for Alfa Bank, told us November 6 that the notion of the ruble as a reserve currency is "laughable," noting the government cannot force markets to accept a currency. Rosneft Vice President for Finance Peter O'Brien (Amcit, strictly protect), simply shook his head with dismay, saying that this type of rhetoric is unhelpful to Russia's international economic image. O'Brien noted that reserve currencies earn their reputation as such

over decades, and that such status "cannot be dictated."

15. (C) Some observers were less derisive about the proposal. Russian Union of Industrialists and Entrepreneurs Vice President Aleksandr Murychev told us he supported the reserve currency goal and defended it as a natural aspiration for Russia. According to Murychev, President Medvedev had essentially set his sights on what a reserve currency represented: a strong economy, a reliable financial system, a stable political system, and an attractive place to do business. However, Murychev also admitted that no one in the Presidential Administration or in the GOR had drafted a roadmap to achieve this goal, and he conceded the ruble was years away from playing a reserve currency role.

PAY ME IN RUBLES

16. (C) The analysts with whom we spoke generally also dismissed the notion that Russia could advance this goal by forcing ruble payments for its oil and gas exports. There is no ruble benchmark price for oil, which trades on world markets in dollars, and Russia's gas prices are tied to oil prices. Russia would either have to accept the dollar benchmark and simply mandate that trades be completed in rubles, or it would have to convince the world to begin using a ruble price for oil -- an unrealistic expectation. Furthermore, since most oil in Russia is produced by private companies (even if indirectly influenced by the Kremlin), the GOR would have to impose this policy on potentially unwilling

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private entities.

17. (C) Shell Russia oil trader Dave Chapman told us November 13 that creating a ruble price for oil would be "impossible." BP Russia oil trader Demetrios Anyfantakis told us November 13 that Russia could not escape the international reference price, which will continue to be denominated in dollars. Both said ruble payments are possible, but questioned the value of such a move. Chapman said Russian producers already likely convert most of their dollar income into rubles to cover their ruble costs. Forcing trade in rubles, he added, would simply insert another layer of currency activity to oil sales transactions that would need to be hedged. He explained that both sellers and buyers would want to fix an exchange rate to avoid currency risk and would either do so as part of the transaction or by hedging the currency risk through the markets.

18. (C) Murychev envisioned a possible path to more widespread trade denominated in rubles through oil and gas sales, but again accepted the difficulties in forcing such a move. He said the process could begin with a focus on ruble-denominated trade with regional partners such as Belarus, Ukraine, and Kazakhstan. Murychev suggested that denominating gas delivery contracts with Belarus in rubles would probably be a feasible starting point. He observed that the food component of global inflation in the last year had enhanced the strategic importance of grain exports, and suggested Russia's grain exports to the CIS could also eventually be priced in rubles. He appreciated, however, that pricing commodities in dollars had developed organically. Consequently, Russia faced the daunting task of manufacturing a demand for rubles to move away from this history, even on a local scale.

COMMENT

19. (C) Reserve currencies earn their reputation as a useful store of value based on a belief in the stability of the economies that use the currencies. Forcing trade to be denominated in rubles will not help create that needed

confidence. The only effect will be to force additional currency conversions on buyers and sellers of oil, adding risk, complexity and inefficiency to these transactions. Moreover, this proposal distracts the GOR from the sort of reforms that would enhance long-term confidence in the ruble, namely creating the institutions to support a strong and stable economy, and thus a strong and stable currency. Back in the real world, confidence in the ruble continues to fall as the currency depreciates in parallel with oil prices and Russians move to convert rubles to dollars -- and as the Central bank's fruitless efforts to arrest or slow the ruble's slide burn through the country's reserves. End comment.

BEYRLE